STITES & HARBISON

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RECEIVED
MAR 07 2003
PUBLIC SERVICE COMMISSION

March 7, 2003

Mark R. Overstreet
[502] 209-1219
jmoverstreet@stites.com

Thomas M. Dorman
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: PSC Case No. 2002-00475

Dear Mr. Dorman:

Enclosed for filing are the original and eight (8) copies of Kentucky Power Company d/b/a American Electric Power's Response to Commission Staff's Supplemental Data Requests.

If you have any questions please do not hesitate to call.

Sincerely,

STITES & HARBISON PLLC

Mark R. Overstreet

MRO:las
Enclosure
cc: Elizabeth E. Blackford
David F. Boehm

KE057:KE157:8849:FRANKFORT

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED
MAR 07 2003
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY POWER COMPANY	**)**
d/b/a AMERICAN ELECTRIC POWER, FOR	**)**
APPROVAL, TO THE EXTENT NECESSARY,	**)**
TO TRANSFER FUNCTIONAL CONTROL OF	**)CASE NO. 2002-00475**
TRANSMISSION FACILITIES LOCATED IN	**)**
KENTUCKY TO PJM INTERCONNECTION, L.L.C.	**)**
PURSUANT TO KRS 278.218	**)**

RESPONSES OF KENTUCKY POWER
D/B/A
AMERICAN ELECTRIC POWER

SUPPLEMENTAL DATA REQUESTS

March 7, 2003

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the response to Staff's initial request, Item 1, page 12, a June 11, 2002 memo authored by R. W. Bradish and C. E. Zebula.

a. For each of the authors, provide his job title, a brief description of his responsibilities, and explain whether his duties were performed for the regulated utility business or the unregulated energy marketing business.

b. Provide the name and job title of each individual who received a copy of the June 11, 2002 memo prior to the date that a decision was made to join PJM Interconnection, L.L.C. ("PJM").

c. Provide the abbreviated study performed by A.T. Kearney, as referenced in the first sentence of the June 11, 2002 memo. If copies are unavailable, provide a detailed explanation of the reasons. If the unavailability is due to the study having been physically destroyed, provide all documents that discuss, recommend, or direct the destruction of the study and explain who directed the destruction, the reasons for the destruction, and the date of the destruction.

d. The June 11, 2002 memo concludes that there is an economic benefit to American Electric Power ("AEP") of joining PJM relative to the Midwest Independent System Operator ("MISO"). One of the findings underlying this conclusion is that locational marginal prices in AEP are higher with all members of the proposed Alliance Regional Transmission Organization ("RTO") joining PJM, rather than MISO. Provide a detailed explanation of why the locational marginal prices in AEP are higher as a member of PJM and how these higher prices benefit KPCO's retail ratepayers.

RESPONSE

a. Robert W. Bradish, at the time of the memo, was Manager- Power and Transmission Analysis, American Electric Power Service Corporation. Charles E. Zebula was Vice President – Energy Markets Analysis, American Electric Power Service Corporation. Mssrs. Bradish and Zebula are part of AEP's wholesale merchant organization, that is, the organization that engages in power and energy marketing and trading. Such activities are carried out by AEP Service Corporation as agent for the AEP operating companies. Mr. Bradish performed fundamental supply/demand analysis and analysis of associated power flow capabilities for the wholesale merchant function. Mr. Zebula performed financial analyses in support of AEP's marketing and trading activities. Both have since been promoted, but still are part of the management for AEP's wholesale merchant function.

b. No one received a copy of the memo prior to the date that a decision was made to join PJM. J. Craig Baker, the individual responsible for advising AEP upper management in connection with the decision to join PJM, was made aware of the general conclusions of the study as summarized in the memo, prior to the decision to join PJM. As indicated on the attachment to the Company's response to the Commission Staff's first set of data requests, page 9 of 13, the input from the wholesale merchant function was one part of a broader analysis that led to the decision.

c. The "study" consisted of the running of computer models by A.T. Kearney. The only work product was a summary of the model results. That summary was presented to AEP by Kearney, but copies were not retained, for several reasons:

i. The analysis and results were commercially sensitive;
ii. Because the results were very dependent upon a range of assumptions, the numerical results and details were not as important to AEP management as the general direction of the results, which is summarized on the June 11, 2002 memo.
iii. Because the directional results confirmed the AEP analysts' intuitive beliefs, it was not deemed necessary to retain the numerical results.

The group that initiated the study, which included Mr. Baker and Mr. Zebula, instructed Kearney to protect the confidentiality of the study materials for the reasons discussed above. In accordance with that direction, Kearney destroyed copies of their summary on May 7, 2002. There are no documents that discuss, recommend or direct the destruction of the documents.

d. The summary says that there appears to be an economic benefit, not that there is one. The study was not a price forecast but rather an attempt to assess the performance of AEP's assets in a marginal cost market. Locational marginal prices, as set by the marginal cost dispatch, are higher in AEP in Scenario No. 1 than in Scenario No. 2 because the marginal cost of generation in the PJM region tends to be higher than the marginal cost of generation in the MISO region. The higher locational marginal prices discussed in the summary cannot be said to harm Kentucky retail ratepayers, for a number of reasons. First, the scenario in which this result was observed was a hypothetical scenario that did not come to pass, since three of the former Alliance Companies have chosen to participate in MISO. Second, the comparison is between two scenarios; it does not indicate whether prices would be higher than they are now. Third, and most important, AEP will likely self-schedule its generation to serve its load, rather than rely on the PJM market. Higher LMPs in the PJM market relative to the MISO market, however, may enable AEP to sell excess power at higher prices. Since off-system sales margins are partially flowed through to Kentucky retail customers through the system sales tracker, such sales can benefit KPCO's retail ratepayers.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the response to Staff's initial request, Item 1, Pages 9 and 10, which contains the statement, "Impact on AEP Energy Marketing - Studies in Progress." Provide the studies and every document that refers thereto, to the extent the studies or documents have not already been filed in this record in response to a prior data request.

RESPONSE

The reference is to the study summarized in the June 11, 2002 memo and discussed in the Company's answer to Question No. 1 of the Staff's supplemental data request.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the response to Staff's initial request, Item 1, page 10. The "Impact on Through and Out Revenues" for the case of "AEP Transmission Owner" is shown as (20) to (82) for MISO, and (4) for PJM. Explain in detail the impact to KPCO's retail ratepayers from the decreased Through and Out Revenues for MISO versus PJM.

RESPONSE

Any impact seen by KPCO's retail customers resulting from decreased Through and Out Revenues would result from the KPSC approving revised retail rates reflecting such transmission revenues. AEP's response to Staff's initial request, Item 1, at page 10, indicated that AEP expected a much more significant reduction in Through and Out Revenues under the MISO than under PJM. Retail rates reflecting the level of Through and Out Revenues under the MISO would be correspondingly higher if AEP joined the MISO rather than PJM.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the response to the Staff's initial request, Item 5, page 2.

a. Provide copies of each of the Letter Orders referenced in Part (b)(3) of the response.

b. Part (b)(3) requested, "Which regulatory agencies, if any, authorized the deferrals"? The response refers to Letter Orders issued to other utilities by the Federal Energy Regulatory Commission's chief accountant and to statements by that chief accountant that utilities could defer RTO formation/integration costs, but does not refer to any specific request by AEP from any regulatory agency for authorization of the accounting deferrals. Has AEP requested authority from any regulatory agency to defer any RTO development costs on the books of AEP or any of its subsidiaries? If yes, provide copies of the requests for deferral and explain why the requests were not disclosed in the original response.

RESPONSE

a. Refer to Question No. 4, Attachments 1 through 4 of this set, for (i) copies of an Order issued by the FERC to Duke Energy Corp. et al, 94 FERC ¶ 61,080 (2001) and (ii) Letter Orders issued by the FERC Chief Accountant to Bangor Hydro-Elec. Co., Docket No. AC01-43-000 (August 14, 2001); (iii) Florida Power & Light Co., Docket No. AC01-23-000 (March 8, 2001); and (iv) Northeast Utilities, Docket No. AC02-6-000 (March 14, 2002).

b. AEP has not specifically requested authority from any regulatory agency to defer RTO formation/integration costs because the FERC Chief Accountant (as noted in the response to Staff's initial request, Item 5, page 2) has informed the electric utility industry that it can defer RTO formation/integration costs pending future recovery consistent with previous authorizations by his office and that each utility does not need to request a separate order to defer similar costs. However, AEP did request on January 28, 2003 that the FERC Chief Accountant approve the transfer of deferred RTO formation/integration costs from Account 186 to Account 182.3 upon the AEP East operating companies' integration into PJM and to continue the deferrals until such time as the deferred costs can be fully recovered from users of its transmission systems including the retail internal load customers.

WITNESS: J. Craig Baker

UNITED STATES OF AMERICA 94 FERC ¶ 61,080
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Curt Hébert, Jr., Chairman;
William L. Massey, and Linda Breathitt.

Duke Energy Corporation
Carolina Power & Light Company
South Carolina Electric & Gas Company
GridSouth Transco, LLC

Docket No. EL01-13-000

ORDER GRANTING PETITION FOR DECLARATORY ORDER

(Issued January 25, 2001)

In this order, we grant the petition for declaratory order filed by Duke Energy Corporation (Duke), Carolina Power & Light Company (CPL), South Carolina Electric & Gas Company (SCE&G) and GridSouth Transco, LLC (GridSouth) (referred to collectively as "the petitioners"), as discussed below. We conclude that the petitioners' proposed accounting treatment for start-up costs associated with the establishment of the proposed GridSouth regional transmission organization (RTO), with the modification discussed herein, is acceptable. However, GridSouth must submit a separate filing pursuant to section 205 of the Federal Power Act (FPA), 16 U.S.C. § 824d (1994), to seek to recover specific costs that it has incurred.

Background

On October 16, 2000, Duke, CPL, SCE&G (the GridSouth transmission owners) and GridSouth submitted a compliance filing[1] to comply with Order No. 2000.[2] In their RTO filing, GridSouth and the transmission owners requested authorization and approval to establish GridSouth as an RTO. The filing included an open access transmission tariff and various agreements that the transmission owners represented would create a for-profit transco that meets the minimum requirements for an RTO as specified in Order No. 2000.

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[1]Docket No. RT01-74-000, pending.

[2]Regional Transmission Organizations, Order No. 2000, FERC Stats. & Regs. ¶ 31,089 (1999), 65 Fed. Reg. 809 (January 6, 2000), order on reh'g, Order No. 2000-A, FERC Stats. & Regs. ¶ 31,092, 65 Fed. Reg. 12,088, 90 FERC ¶ 61,201 (2000).

Their filing anticipated a start-up or "independence" date of December 15, 2001, when GridSouth could be ready to assume functional control of the participants' transmission facilities.

On November 3, 2000, the petitioners filed a petition for declaratory order in the present docket seeking "up-front" approval of their proposed accounting treatment for start-up costs associated with the establishment of the RTO. The petitioners state that they anticipate spending over $100 million in start-up costs for the period May 15, 2000 to December 15, 2001. They propose that start-up costs directly associated with GridSouth activities will be separately captured on the individual GridSouth transmission owners' books and recorded as a receivable from GridSouth. These receivables will accrue carrying charges. After GridSouth is formed, incurred costs will be transferred to GridSouth, and GridSouth will record an associated payable to the transmission owners in Account 223 (Advances from Associated Companies).

The petitioners state that GridSouth will record the transferred start-up costs in Accounts 301 (Organization), 303 (Miscellaneous Intangible Plant) and various plant accounts for physical assets. In addition, they state that costs associated with hiring personnel, arranging financing, labor and benefits for employees, payroll taxes, rent expense and carrying charges will be recorded in Account 186 (Miscellaneous Deferred Debits). According to the petitioners, start-up costs deferred in Account 186 will be transferred to Account 182.3 (other Regulatory Assets) once the Commission approves their inclusion in the Formula Rate used to calculate the transmission service charge in Schedule 9 of the GridSouth Open Access Transmission Tariff. GridSouth will request an amortization period in connection with its request for depreciation rates in a subsequent filing pursuant to section 205 of the FPA. The unamortized balance of Account 182.3 will be included in the determination of rate base investment for Formula Rate purposes.

The petitioners state that the above methodology is appropriate because it is consistent with Commission precedent in both electric and gas orders that allow a newly-formed enterprise to recover the start-up costs incurred by the investor-utilities using a similar methodology.[3] They also contend that approval of the accounting treatment for

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[3]Petitioners cite to PJM Interconnection, L.L.C, 93 FERC ¶ 61,056 (2000) (ruling that certain facilities costs incurred by transmission owners on behalf of an independent system operator (ISO) could be recovered in the ISO's transmission rates, inclusive of carrying charges); Sierra Pacific Power Company and Nevada Power Company, 87 FERC ¶ 61,077 at 61,335, reh'g denied, 88 FERC ¶ 61,058 (1999) (if applicants determine that (continued...)

costs deferred in Account 186 for Formula Rate purposes is necessary to permit GridSouth to defer these costs; and that, without such approval, GridSouth would be forced to absorb the start-up costs. The petitioners state that, before they make the financial commitment to establish the RTO, they first need the Commission's assurance that its proposed accounting procedure is acceptable.

Notices, Interventions, and Protests

Notice of the petitioners' filing was published in the Federal Register, 65 Fed. Reg. 75,694 (2000), with comments, protests, and interventions due on or before December 15, 2000. Timely, unopposed motions to intervene were filed by ElectriCities of North Carolina, Inc., Piedmont Municipal Power Agency, Cities of Orangeburg and Seneca, South Carolina, Oglethorpe Power Corporation, American Forest & Paper Association, Georgia Transmission Corporation, Central Electric Power Cooperative, Inc., North Carolina Electric Membership Corporation, and New Horizon Electric Cooperative, Inc.

In a Joint Protest, numerous intervenors[4] contend that the petitioners are unclear whether they are seeking approval for accounting purposes only, or whether they are also seeking pre-approval for the recovery of costs booked in accordance with the proposed accounting procedure. Joint Protestors express concern that, because the petition lists specific categories of start-up costs and specific costs that will be booked to Account 186, Commission approval may be interpreted as pre-approving these costs as "just and reasonable." They argue that, if this is the case, the petition should be rejected because there has been no showing that the start-up costs at issue are reasonable and prudently incurred expenses. Rather, Joint Protestors contend that the proper accounting treatment is to book start-up costs as construction work in process (CWIP) and, if such investment is later sought to be recovered through rates, it is subject to a prudence inquiry.

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[3](...continued)
rate recovery of any portion of costs associated with a proposed merger is probable, they may account for that portion as a regulatory asset and amortize it to income commensurate with its rate recovery); Portland Natural Gas Transmission System, 76 FERC ¶ 61,123 (1996), on reh'g, 80 FERC ¶ 61,134 (1997) (pipeline start-up costs capitalized and included in the rates of new pipeline company).

[4]ElectriCities of North Carolina, Inc., Piedmont Municipal Power Agency, Cities of Orangeburg and Seneca, South Carolina, Central Electric Power Cooperative, Inc., North Carolina Electric Membership Corporation, and New Horizon Electric Cooperative, Inc. filed the Joint Protest and are referred to as the "Joint Protestors."

Joint Protestors argue that the precedent cited by the petitioners relate to the building of substantial capital-intensive facilities such as transmission lines and, thus, are distinguishable from the start-up costs incurred by GridSouth (that, according to the Joint Protestors, merely promotes the start-up of an entity that will perform a subset of functions already performed by the GridSouth transmission owners).

Alternatively, if the Commission grants the petition, Joint Protestors seek clarification: (1) that the petitioners only seek and the Commission only ratifies the proposed accounting treatment and that a section 205 filing is required for recovery of incurred costs; and (2) regarding the allocation of GridSouth start-up costs between wholesale transmission customers and the transmission owners' bundled native load.

On January 2, 2001, the petitioners filed an answer to the Joint Protest. In response, the petitioners contend that the Joint Protestors have misconstrued the petition, and that the petition does not request Commission pre-approval for rate recovery of start-up costs. The petitioners state that they recognize the need for a section 205 filing prior to rate recovery. Rather, the petitioners claim that they seek a declaratory order in the nature of accounting conclusions. Further, the petitioners contend that the issue of allocation of start-up costs between native and wholesale customers is beyond the scope of the petition and should be addressed in the GridSouth RTO proceeding, Docket No. RT01-74-000.

Discussion

Procedural Matter

Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,[5] the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

Rule 213(a)(2) of the Commission Rules of Practice and Procedure[6] generally prohibits an answer to an answer, unless otherwise permitted by the decisional authority. In this case, we will grant the petitioners' request to respond to the Joint Protest, because the pleading clarifies the arguments and enhances our understanding of the facts.

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[5] 18 C.F.R. § 385.214 (2000).

[6] 18 C.F.R. § 385.213(a)(2) (2000).

Declaratory Order

The Commission grants the petition and accepts the petitioners' proposed accounting treatment for start-up costs associated with the establishment of the proposed GridSouth RTO. GridSouth is entitled to defer the recovery of start-up costs until such time that the RTO is operational, at which time depreciation of the "asset" must commence. The petitioners' proposal is consistent with the treatment of start-up costs that the Commission has accepted in similar contexts. For example, in PJM Interconnection, we found acceptable PJM's proposal to recover through its formula rates $136 million in costs, inclusive of carrying charges, because these costs were appropriately incurred by PJM in acquiring the information technology and other assets from its transmission owners that PJM uses to conduct its operations.[7] We disagree with Joint Protestors' claim that start-up costs for GridSouth should be treated differently because they may be repetitive of functions already performed by the existing transmission owners. GridSouth is expending funds to further its plans to comply with the Commission's Order No. 2000. As we noted in Order No. 2000, we want to assure utilities that they will not be disadvantaged by participating in an RTO.[8]

However, we will require one modification to the petitioners' proposal. The petitioners propose that start-up costs directly associated with GridSouth activities will be separately captured on the individual GridSouth transmission owners' books and recorded as a receivable from GridSouth. Until such time that GridSouth is formed, the transmission owners cannot record a receivable from a non-existent entity. Rather, start-up costs incurred by the transmission owners prior to the formation of GridSouth should be recorded in Account 186 (miscellaneous deferred debt). This modification will result in accurate accounting disclosure.

Joint Protestors' primary concern is that the petitioners are seeking pre-approval for the recovery of costs booked in accordance with the proposed accounting procedure. In their answer, the petitioners state that Joint Protestors are mistaken, and that the petitioners intend to submit a separate section 205 filing prior to rate recovery.[9] The petitioners did not request pre-approval for rate recovery and we are not granting it here.

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[7]93 FERC ¶ 61,056 (2000).

[8]FERC Stats. & Regs. ¶ 31,089 at 31,172-73.

[9]See also Petition for Declaratory Order at 7, where petitioners state that they will request an appropriate amortization period in a request for depreciation rates in a future filing with the Commission pursuant to section 205 of the FPA.

We accept here only petitioners' proposed accounting treatment for start-up costs. Recovery of start-up costs requires a section 205 filing prior to recovery.[10]

Further, Joint Protestors request clarification regarding the allocation of GridSouth start-up costs between wholesale and native load customers. The petitioners respond that this request is beyond the scope of their petition. We agree with the petitioners. This issue will be addressed when GridSouth applies under section 205 for the formula rate and related allocation of costs.

The Commission orders:

(A) The petition for declaratory order filed by Duke Energy Corporation, Carolina Power & Light Company, South Carolina Electric & Gas Company and GridSouth Transco, LLC is hereby granted, as modified and discussed in the body of this order.

(B) The petitioners' answer to the Joint Protest is hereby accepted.

By the Commission.

(S E A L)

Linwood A. Watson, Jr.,
Acting Secretary.

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[10]Likewise, while the Commission agrees that, for accounting purposes, the transmission owners and GridSouth may accrue carrying charges on the start-up costs, the appropriateness of the recovery of carrying charges and the amount of such charges will be subject to scrutiny in the section 205 proceeding.

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON D C 20426

In Reply Refer To:
OED-DRAP
Docket No. AC01-43-000

COPY

AUG 14 2001

Huber Lawrence & Abell
Attention: Mr. Richard M. Lorenzo
Attorney for Central Maine Power Company
1001 G Street, NW., Suite 1225
Washington, DC 20001

Thank you for your letter dated May 11, 2001, filed on behalf of Bangor Hydro-Electric Company (BHE), Central Maine Power Company (CMP) and Vermont Electric Power Company (VELCO) requesting approval of the proposed accounting treatment for costs associated with the establishment of the Northeast Independent Transmission Company, LLC (NE ITC). Specifically, you propose to defer interim start up costs and the related carrying charges in Account 186, Miscellaneous Deferred Debits. In addition, in the event that the regional transmission organization (RTO) fails to become operational, you request permission to transfer the costs to a regulatory asset account.

Notice of your request was published in the Federal Register, 66 Fed. Reg. 35,605 (2001), with protests or interventions due on or before July 18, 2001. PPL EnergyPlus, LLC, PPL Maine, LLC and PPL Wallingford, LLC filed a timely joint motion to intervene raising no issues.

Your request to defer the interim costs, including the accrual of carrying charges, is approved. Recognition of these costs as a regulatory asset in the event that the RTO does not become operational would only be appropriate if the amounts would otherwise be chargeable to expense at that time and you have concluded based upon all relevant information, that recovery in rates in a different period is probable.[1]

[1] 18 CFR Part 101, Definition No. 30.

010815-0643-3

DOCKETED

Background

On January 16, 2001, BHE, CMP and VELCO along with other New England transmission owners filed a joint application proposing to form the NE ITC, a for-profit transmission company that will act as the RTO for the New England region.[2] You state that in order to help the NE ITC meet the Commission's December 15, 2001, RTO start up date, the transmission owners have incurred, and continue to incur, extensive costs. The interim costs include: collaborative process costs, regulatory filings, consultant and legal fees, staffing costs, the cost of developing definitive agreements, organization costs and the cost of securing financing for NE ITC.

You state that the transmission owners and NE ITC seek approval to defer the interim costs (including carrying charges) in Account 186. In addition, when NE ITC is fully operational and the Commission has approved the costs pursuant to a Section 205 filing, the deferred costs may be transferred to: Account 182.3, Other Regulatory Assets; Account 301, Organization; or Account 303, Miscellaneous Intangible Plant, as appropriate.

In the event that NE ITC does not become operational, you request that each of the transmission owners be permitted to move the interim costs to a regulatory asset account pending approval to recover the costs through the current formula rates for transmission under the NEPOOL Tariff.

Discussion

Account 186 provides for the inclusion of amounts that are not provided for elsewhere, such as miscellaneous work in progress and unusual or extraordinary expenses, and items where the proper final disposition is uncertain. Therefore, the interim RTO start up costs are properly deferred in Account 186. [3]

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[2]In Docket No. RT01-86-000, dated January 16, 2001, Bangor Hydro-Electric Company, Central Maine Power Company, National Grid USA, Northeast Utilities Service Company, The United Illuminating Company, Vermont Electric Power Company, and ISO New England, Inc. filed a joint compliance filing pursuant to Order Nos. 2000 and 2000-A.

[3]The deferral of start up costs in Account 186 is consistent with the accounting approved for costs related to the formation of another RTO, GridFlorida. See the letter
(continued...)

With regard to your request to accrue carrying charges on the deferred costs, the Commission has previously permitted the accrual of carrying charges on costs incurred during the formation of an RTO.[4] Therefore, carrying charges may be accrued until the RTO is substantially ready for its intended use.

Finally, the instructions to Account 182.3 provide in part that this account shall include specific expenses that would be included in net income determinations in one period under the general requirements of the Uniform System of Accounts but for it being probable that such expenses will be included in a different period for purposes of developing rates. The term "probable," as used in the definition of regulatory assets refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved. Therefore, you may transfer the interim costs to Account 182.3 if these criteria are met at the time that it is determined that the RTO will not become operational.

The foregoing determinations are for accounting purposes only. Rate recovery of the interim costs cannot occur without either the RTO or transmission owner making a separate filing pursuant to Section 205 of the Federal Power Act[5].

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[3](...continued)
order issued by the Chief Accountant to Florida Power & Light Company, on March 8, 2001, in Docket No. AC01-23-000.

[4]94 FERC ¶ 61,080, Duke Energy Corporation, Carolina Power & Light Company, South Carolina Electric & Gas Company and GridSouth Transco, LLC (2001); and 93 FERC ¶ 61,056, PJM Interconnection, LLC, Atlantic City Electric Company, Baltimore Gas and Electric Company, Delmarva Power & Light Company, Jersey Central Power & Light Company, Metropolitan Edison Company, PECO Energy Company, Pennsylvania Electric Company, Potomac Electric Power Company, PPL Electric Utilities Corporation and Public Service Electric & Gas Company (2000).

[5]16 U.S.C. §824d (1994).

This letter order constitutes final agency action. To request that the Commission rehear your case, you may file your request within 30 days of the date of this letter order (see 18 C.F.R. § 385.713).

Sincerely,

James K. Guest

James K. Guest
Director, Division of Regulatory
Accounting Policy

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON D C 20426

In Reply Refer To:
OED-DRAP
Docket No. AC01-23-000

MAR 8 2001

Skadden, Arps, Slate, Meagher & Flom LLP
Attention: Mr. Glen S. Bernstein
Attorney for Florida Power & Light Company
1440 New York Avenue, NW.
Washington, DC 20005-2111

Thank you for your letter dated February 6, 2001, on behalf of Florida Power & Light Company (FPL), requesting approval to defer start up costs related to the formation of a Regional Transmission Organization (RTO). As discussed below, we approve your request to defer start up costs in Account 186, Miscellaneous Deferred Debits, pending the formation of the RTO which we anticipate will begin operations within the Commission's RTO targeted commencement date of December 15, 2001.[1]

Background of Application

On October 16, 2000, FPL, along with other Florida transmission owners, filed a joint compliance application [2] proposing to form a for profit transmission company (Transco) that will act as the RTO for the Florida Reliability Coordinating Company. FPL intends to transfer ownership of its transmission facilities to the RTO when the RTO commences operation.

[1] Your request is consistent with the accounting approved for the other RTO transmission owners: Florida Power Corporation, in Docket No. AC01-10-000, on December 14, 2000; and Tampa Electric Company, in Docket No. AC01-21-000, on January 29, 2001.

[2] On October 16, 2000, in Docket No. RT01-67-000, Florida Power & Light Company, Florida Power Corporation and Tampa Electric Company filed a joint compliance filing pursuant to Sections 203 and 205 of the Federal Power Act and Commission Order No. 2000.

01031200 20-1

FPL seeks authorization to defer for future reimbursement by GridFlorida costs incurred in the development of the RTO. This accounting filing states that FPL is seeking authority to defer in Account 186 the costs it has incurred during 2000, and expected to be incurred related to the start-up of the RTO. Your filing states that at this time the actual start-up costs to be incurred cannot be estimated with certainty. FPL proposes to transfer these amounts to GridFlorida when it transfers operation control of its transmission facilities to the RTO. FPL indicated that the RTO will reimburse it from subsequent borrowings from one or more financial institutions.

Uniform System of Accounts Requirements

The specific categories of costs related to your current and future support of the development of the RTO as indicated in your request include: collaborative process costs, computer development costs, project management costs, regulatory expense costs, and training costs.

Account 186 provides for the inclusion of amounts not elsewhere provided for, such as miscellaneous work in progress, and unusual or extraordinary expenses, not included in other accounts, . . . and items the proper final disposition of which is uncertain. Therefore, costs you are incurring on behalf of the RTO pending its start-up, and your subsequent reimbursement, are properly deferred in Account 186.

As your letter indicated, the above mentioned costs are examples of the types of costs that may be incurred to support the development of the RTO, but the actual categories of costs and related amounts cannot be estimated with certainty. Therefore, we approve FPL's request to defer in Account 186, Miscellaneous Deferred Debits, the costs it has incurred during 2000 and may incur through December 15, 2001,[3] related to its participation in the formation of an RTO. To the extent that FPL continues to defer start-up costs in Account 186 subsequent to the Commission's RTO start-up date of December 15, 2001, it shall make a filing with the Chief Accountant providing full particulars concerning the nature of the costs being deferred, the amounts involved, and the accounting basis for future deferral of costs.

Additionally, FPL should credit Account 186 with all reimbursements from GridFlorida. All amounts not reimbursed by the RTO must be expensed immediately to Account 426.5, Other Deductions.

[3]December 15, 2001, is the targeted RTO start-up date identified in your letter.

Finally, this approval is for accounting purposes only and does not constitute a finding that the costs were just and reasonable, prudently incurred, or otherwise approved for ratemaking treatment.

This letter order constitutes final agency action. If you wish the Commission to rehear your case, you must file a request within 30 days of the date of this letter order. (See 18 C.F.R. § 385.713.)

Sincerely,

James K. Guest
Director, Division of Regulatory
Accounting Policy

COPY

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON D C 20426

In Reply Refer To:
OED-DRAP
Docket No. AC02-6-000

MAR 14 2002

Steptoe & Johnson, LLP
Attention: Mr. David B. Raskin
Attorney for Northeast Utilities Service Company
1330 Connecticut Avenue, NW.
Washington, DC 20036-1795

Thank you for your letter dated November 20, 2001, filed on behalf of Northeast Utilities Service Company (NUSCO) and the NU Operating Companies,[1] requesting approval of the proposed accounting treatment for costs associated with the establishment of both the Northeast Independent Transmission Company, LLC (NE ITC) as well as for the formation of a larger Northeastern RTO. Specifically, you propose to defer interim start up costs and the related carrying charges in Account 186, Miscellaneous Deferred Debits. In addition, in the event that the regional transmission organization (RTO) fails to become operational, you request permission to transfer the costs to a regulatory asset account.

Your request to defer the interim costs, including the accrual of carrying charges, is approved. Recognition of these costs as a regulatory asset in the event that the RTO does not become operational would only be appropriate if the amounts would otherwise be chargeable to expense at that time and you have concluded based upon all relevant information, that recovery in rates in a different period is probable.[2]

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[1]NUSCO and the NU Operating Companies are subsidiaries of Northeast Utilities, Inc., a registered public utility holding company. The NU Operating Companies include: The Connecticut Light and Power Company; Western Massachusetts Electric Company; Holyoke Water Power Company; Holyoke Power and Electric Company; and Public Service Company of New Hampshire.

[2]18 C.F.R. Part 101, Definition No. 30.

DOCKETED

Background

On January 16, 2001, NUSCO (on behalf of the NU Operating Companies) along with certain other New England utilities submitted a petition (Joint Petition) to form the NE ITC, a for-profit transmission company that would act as the RTO for the New England region.[3] You state that, on July 12, 2001, the Commission granted in part and denied in part the Joint Petition,[4] and, in a separate order issued concurrently,[5] directed the participants in the Joint Petition to participate in mediation on forming a single Northeastern RTO. In the ruling on the Joint Petition the Commission acknowledged that there will be additional start up costs associated with forming the larger RTO, but over the longer term large RTOs will foster market development, will provide increased reliability, and will result in lower wholesale electricity prices.[6]

You state that the NU Operating Companies have incurred and continue to incur, extensive costs related to the establishment of an RTO (i.e., costs that were incurred initially for the NE ITC plus the costs associated with forming the larger Northeastern RTO). These costs include: collaborative process costs, regulatory filings, consultant and legal fees, staffing costs, the cost of developing definitive agreements, organization costs, the cost of securing financing for the NE ITC, and the costs of participating in the Commission-ordered mediation.

The transmission owners and the RTO seek approval to defer the interim costs (including carrying charges) in Account 186. In addition, when the NE ITC or the larger Northeastern RTO is fully operational and the Commission has approved the costs pursuant to a Section 205 filing, the applicants request approval to transferred the deferred costs to Account 182.3, Other Regulatory Assets; Account 301, Organization; or Account 303, Miscellaneous Intangible Plant, as appropriate.

---

[3]In Docket No. RT01-86-000, dated January 16, 2001, Bangor Hydro-Electric Company, Central Maine Power Company, National Grid USA, Northeast Utilities Service Company, The United Illuminating Company, Vermont Electric Power Company, and ISO New England, Inc. filed a joint compliance filing pursuant to Order Nos. 2000 and 2000-A.

[4]Bangor Hydro- Electric. Co., et. al., 96 FERC ¶ 61,063 (2001).

[5]Regional Transmission Organizations, 96 FERC ¶ 61,065 (2001).

[6]96 FERC ¶ 61,063 at 61,255 (2001).

In the event that the NE ITC or Northeastern RTO does not become operational, you request that you be permitted to move the interim costs to a regulatory asset account pending approval to recover the costs through the current formula rates for transmission under the NEPOOL Tariff.

Discussion

Account 186 provides for the inclusion of amounts that are not provided for elsewhere, such as miscellaneous work in progress and unusual or extraordinary expenses, and items where the proper final disposition is uncertain. Therefore, the interim RTO start up costs are properly deferred in Account 186. [7] When the RTO becomes operational the amounts deferred in Account 186 shall be transferred to Account 182.3, 301, 303 or other account as appropriate.

With regard to your request to accrue carrying charges on the deferred costs, the Commission has previously permitted the accrual of carrying charges on costs incurred during the formation of an RTO.[8] Therefore, carrying charges may be accrued until the RTO is substantially ready for its intended use.

Finally, the instructions to Account 182.3 provide in part that this account shall include specific expenses that would be included in net income determinations in one period under the general requirements of the Uniform System of Accounts but for it being probable that such expenses will be included in a different period for purposes of developing rates. The term "probable," as used in the definition of regulatory assets refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved. Therefore, you may transfer the interim costs to Account 182.3 if these criteria are met at the time that it is determined that the RTO will not become operational.

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[7]The deferral of start up costs in Account 186 is consistent with the accounting approved for: Bangor Hydro-Electric Company et. al., in Docket No. AC01-43-000, on August 14, 2001, relating to the NE ITC; and Florida Power & Light Company, in Docket No. AC01-23-000, on March 8, 2001, relating to the GridFlorida RTO.

[8]Duke Energy Corporation, et. al., 94 FERC ¶ 61,080 (2001); PJM Interconnection, LLC, et. al., 93 FERC ¶ 61,056 (2000).

The foregoing determinations are for accounting purposes only. Rate recovery of the interim costs cannot occur without either the RTO or transmission owner making a separate filing pursuant to Section 205 of the Federal Power Act.[9]

This letter order constitutes final agency action. To request that the Commission rehear your case, you may file your request within 30 days of the date of this letter order (see 18 C.F.R. § 385.713).

Sincerely,

James K. Guest
Director, Division of Regulatory
Accounting Policy

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[9] 16 U.S.C. §824d (1994).

Kentucky Power
d/b/a
American Electric Power

REQUEST

The response to Staff's initial request, Item 6(a), refers to the transmission rate zone within PJM.

a. Will KPCO's transmission system be a discrete rate zone within PJM? If no, identify the other transmission-owning members within KPCO's rate zone.

b. Explain in detail how KPCO's transmission rates compare to those in PJM.

c. Explain in detail how the AEP/PJM zonal rate will compare to KPCO's current transmission rate.

RESPONSE

a. No. Other transmission owners within the AEP rate zone will include the other AEP East operating companies.

b. KPCO's transmission rates, as part of the AEP East transmission zone under the AEP OATT, provide service over the entire AEP transmission system for a single transmission access charge. The zonal transmission rates under the PJM OATT provide access over the facilities of the entire PJM region for a single transmission access fee. AEP expects that some PJM Zonal rates will be higher than the AEP zonal rate (to be determined by FERC) and some will be lower. The PJM OATT contains the presently approved rates.

c. The AEP/PJM zonal rate, if approved as proposed, would provide KPCO and other transmission customers in the AEP rate zone, region-wide, single charge transmission access. See also the response to part b. above.

WITNESS: J. Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

The response to Staff's initial request, Item 7, is not responsive to the request, except for the discussion of the PJM administrative charges per Schedule 9. Provide the information as originally requested in Item 7 of the Staff's initial request.

RESPONSE

Staff's initial request, Item 7, is as follows:

> List each PJM rate that will be paid by or allocated or assessed to Kentucky Power. For each rate listed, provide the following information:
>
> a. The specific service that will be offered or performed by PJM
>
> b. The estimated annual costs to Kentucky Power.
>
> c. An explanation of how Kentucky Power's estimated annual costs was calculated, including the billing determinants used in the calculation and whether it is calculated on a demand or energy basis.
>
> d. The basis to be used for any allocation or assessment to Kentucky Power.

Our expanded response follows:
a. The services offered by PJM are numerous, as revealed in the PJM OATT and the PJM Manual for Billing M - 29, which can be viewed at the following PJM website: http://pubs.pjm.com/dynaweb/PJMpubp.

A copy of the M-29 Manual for Billing is included as Question No. 6, Attachment 1, which lists the following PJM charges and credits that may be charged to AEP.

Operating Agreement of PJM Interconnection, L.L.C. -- The monthly billing statement includes charges and credits associated with the following services and obligations under the Operating Agreement:
* spot market energy
* regulation
* operating reserves
* synchronous condensing
* spinning reserve
* transmission congestion
* transmission losses
* emergency energy
* load response programs
* meter error corrections
* unscheduled transmission service
* Ramapo PAR facilities
* FTR auction
* FTR auction revenue allocations
* capacity credit market
* reconciliation for spot market energy
* reconciliation for regulation
* reconciliation for operating reserves
* reconciliation for transmission losses

PJM Open Access Transmission Tariff -- The monthly billing statement includes charges and credits associated with the following services and obligations under the Tariff:
* PJM scheduling, system control, and dispatch service
* Transmission Owner scheduling, system control and dispatch service
* reactive supply and voltage control from generation
* energy imbalance service
* reconciliation for PJM scheduling, system control, and dispatch service
* reconciliation for RTO scheduling, system control, and dispatch service
* network transmission service
* network transmission service offsets
* other supporting facilities
* special studies

* firm point-to-point transmission service
* non-firm point-to-point transmission service
* transitional revenue neutrality
* Mid-Atlantic Area Council charge
* transitional market expansion
* black start service

Reliability Assurance Agreements -- The monthly billing statement includes charges and credits associated with the following services and obligations under the Reliability Assurance Agreements:
* capacity deficiency

The monthly billing statement may also include other charges and credits of a miscellaneous nature. Certain other charges and credits may be invoiced on separate billing statements, such as capital costs, training charges, and adjustments from previous methods of accounting.

For services that are provided on a time scale longer than one month, charges and credits are generally prorated on the monthly billing statement. For services that are provided on a time scale less than one month (such as spot market energy, which is an hourly service), detailed accounting and billing information is made available by the PJM OI to PJM Members and Transmission Customers for their review. This detailed information may be useful for internal accounting and for verifying the monthly billing statement.

PJM Members and Transmission Customers are obligated by the Operating Agreement, Transmission Tariff and Reliability Assurance Agreements to pay the amounts shown as due in the monthly billing statement. Charges and Credits are made by wire transfer, with interest charged in overdue accounts. Funds received late (but within 30 days of due date) offset the amount of the credits provided by PJM on a prorated basis which get made whole (including interest) as the late payments are received. The PJM OI has the right to discontinue service to the PJM Members or Transmission Customers that default.

AEP expects to receive all of the services that a typical Load Serving Entity will require under the PJM OATT.

b. AEPSC, as agent for the AEP Companies, will be billed by PJM for the services the AEP Companies purchase and will be paid by PJM for the services the AEP Companies supply. AEPSC has not completed an analysis of all the costs the AEP Companies will be charged by PJM, but expects that Kentucky Power's portion of PJM Administrative charges (which may constitute the bulk of any net charges to the AEP Companies after credits from PJM and Third Parties for services rendered by the AEP Companies) will be approximately $3 million per year.

c. PJM estimates $45 million per year for Administrative Charges per Schedule 9. The $45 million would be multiplied by KPCo's MLR, which averaged 7.3% in 2002, or approximately $3 million as estimated in part b above.

d. See responses to parts a, b and c.

WITNESS: J Craig Baker

PJM Interconnection, L.L.C.

PJM Manual for

Billing

Manual M-29

Revision: 07
Effective Date: December 1, 2002

Prepared by
Market Settlements
PJM Interconnection, L.L.C.

PJM Manual for

Billing

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Revision History

Approval

Approval Date: 12/01/02 Effective Date: 12/01/02

Harry E. Dessender, Manager

Market Settlements Department

Revision History

Revision 07 (12/01/02)

The PJM Manual for ***Billing*** has been updated to reflect the changes to incorporate the PJM Spinning Reserve Market and Black Start Service.

Revision 06 (04/01/02)

The PJM Manual for ***Billing*** has been updated to reflect the changes to incorporate the PJM West Region and Rockland Electric Company.

Revision 05 (01/01/01)

The PJM Manual for ***Billing*** has been updated to reflect the changes to the PJM Scheduling, System Control and Dispatch Service billing line item and to include a new billing line item for Mid-Atlantic Area Council Charge.

Removed Attachment A: Definitions and Abbreviations. Attachment A is being developed into a 'new' PJM Manual for ***Definitions and Abbreviations (M-35).***

Revision 04 (06/01/00)

The PJM Manual for ***Billing*** has been updated to reflect the Multi-Settlement Process implementation.

Revision 03 (05/01/99)

The PJM Manual for ***Billing*** has been updated to include new billing line items for Retail Load Reconciliation and for FTR Auction activity.

Revision 02 (01/01/99)

Changes made throughout the manual for implementation of Pennsylvania Customer Choice, PJM Capacity Credit Market and updated Reliability Assurance Agreement.

Revision 01 (04/17/98)

Revised all Sections to reference "Locational Marginal Price" rather than "Market Clearing Price."

Attachment B

Deleted Attachment B.

Revision 00 (09/02/97)

This revision is the preliminary draft of the PJM Manual for ***Billing***.

Introduction

Welcome to the PJM Manual for ***Billing***. In this Introduction, you will find the following information:

- What you can expect from the PJM Manuals in general (see "*About PJM Manuals*").
- What you can expect from this PJM Manual (see "*About This Manual*").
- How to use this manual (see "*Using This Manual*").

About PJM Manuals

The PJM Manuals are the instructions, rules, procedures, and guidelines established by the PJM OI for the operation, planning, and accounting requirements of PJM and the PJM Energy Market. Exhibit I.1 lists the PJM Manuals.

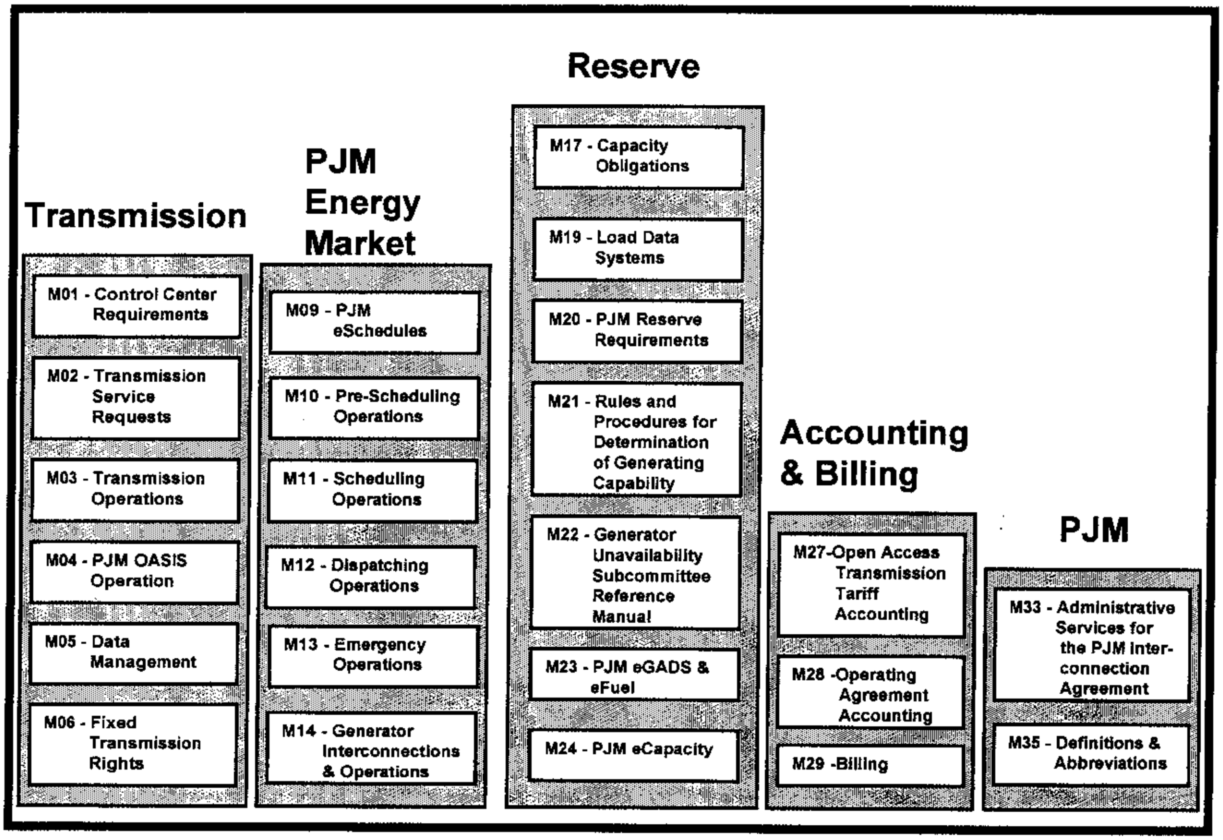

Exhibit I.1: List of PJM Manuals

About This Manual

The PJM Manual for ***Billing*** is one of a series of manuals within the PJM OI set of manuals. This manual focuses on within the Accounting and Billing group. This manual focuses on the monthly billing statement, which is prepared by the PJM OI. The manual describes the structure of the bill, as well as the billing and payment processes.

The PJM Manual for ***Billing*** consists of four sections. The sections are as follows:

- Section 1: Overview
- Section 2: Monthly Billing Statement
- Section 3: Accounting Reports

Target Users

The target users for the PJM Manual for ***Billing*** are:

- PJM Members
- Transmission Customers
- Transmission Owners
- PJM OI accounting staff
- PJM OI audit staff
- PJM OI customer relations and training staff

References

The References to other documents that provide background or additional detail directly related to the PJM Manual for ***Billing*** are:

- Operating Agreement of PJM Interconnection, L.L.C.
- PJM Open Access Transmission Tariff
- Transmission Owners Agreement
- Reliability Assurance Agreement among Load Serving Entities in the PJM Control Area
- Reliability Assurance Agreement among Load Serving Entities in the PJM West Region
- PJM Manual for ***Open Access Transmission Tariff Accounting***
- PJM Manual for ***Operating Agreement Accounting***
- PJM Manual for ***Definitions and Abbreviations***

Using This Manual

Because we believe that explaining concepts is just as important as presenting the procedures, we start each section with the "big picture". Then, we present details and procedures. This philosophy is reflected in the way we organize the material in this manual. The following paragraphs provide an orientation to the manual's structure.

What You'll Find In This Manual

- A table of contents
- An approval page that lists the required approvals and revision history
- This introduction
- Sections containing the specific guidelines, requirements, or procedures including PJM OI actions and PJM Member actions

Section 1: Overview

Welcome to the *Overview* section of the PJM Manual for ***Billing***. In this section, you will find the following information:

- A brief overview of the billing and payment processes used for the Operating Agreement of PJM Interconnection, L.L.C., the PJM Open Access Transmission Tariff, the Reliability Assurance Agreement Among Load Serving Entities in the PJM Control Area and the Reliability Assurance Agreement Among Load Serving Entities in the PJM West Region. (see *"Overview"*).

Overview

Billing and payment are coordinated processes under the terms of the Operating Agreement of PJM Interconnection, L.L.C., the PJM Open Access Transmission Tariff, the Reliability Assurance Agreement Among Load Serving Entities in the PJM Control Area and the Reliability Assurance Agreement Among Load Serving Entities in the PJM West Region. A single billing statement is issued monthly by the PJM OI to each PJM Member and Transmission Customer, detailing all charges and credits for the month that apply to the PJM Member or Transmission Customer under the Operating Agreement, the Tariff, and the Reliability Assurance Agreements. The billing statement presents a net amount due from the PJM Member or Transmission Customer or due to the PJM Member or Transmission Customer.

- *Operating Agreement of PJM Interconnection, L.L.C.* — The monthly billing statement includes charges and credits associated with the following services and obligations under the Operating Agreement:
    - spot market energy
    - regulation
    - operating reserves
    - synchronous condensing
    - spinning reserve
    - transmission congestion
    - transmission losses
    - emergency energy
    - load response programs
    - meter error corrections
    - unscheduled transmission service
    - Ramapo PAR facilities
    - FTR auction
    - FTR auction revenue allocations
    - capacity credit market
    - reconciliation for spot market energy
    - reconciliation for regulation
    - reconciliation for operating reserves

- reconciliation for transmission losses

- *PJM Open Access Transmission Tariff* — The monthly billing statement includes charges and credits associated with the following services and obligations under the Tariff:
    - PJM scheduling, system control, and dispatch service
    - Transmission Owner scheduling, system control and dispatch service
    - reactive supply and voltage control from generation
    - energy imbalance service
    - reconciliation for PJM scheduling, system control, and dispatch service
    - reconciliation for RTO scheduling, system control, and dispatch service
    - network transmission service
    - network transmission service offsets
    - other supporting facilities
    - special studies
    - firm point-to-point transmission service
    - non-firm point-to-point transmission service
    - transitional revenue neutrality
    - Mid-Atlantic Area Council charge
    - transitional market expansion
    - black start service
- *Reliability Assurance Agreements* — The monthly billing statement includes charges and credits associated with the following services and obligations under the Reliability Assurance Agreements:
    - capacity deficiency

The monthly billing statement may also include other charges and credits of a miscellaneous nature. Certain other charges and credits may be invoiced on separate billing statements, such as capital costs, training charges, and adjustments from previous methods of accounting.

For services that are provided on a time scale longer than one month, charges and credits are generally prorated on the monthly billing statement. For services that are provided on a time scale less than one month (such as spot market energy, which is an hourly service), detailed accounting and billing information is made available by the PJM OI to PJM Members and Transmission Customers for their review. This detailed information may be useful for internal accounting and for verifying the monthly billing statement.

PJM Members and Transmission Customers are obligated by the Operating Agreement, Transmission Tariff and Reliability Assurance Agreements to pay the amounts shown as due in the monthly billing statement. Charges and Credits are made by wire transfer, with interest charged in overdue accounts. Funds received late (but within 30 days of due date) offset the amount of the credits provided by PJM on a prorated basis which get made whole (including interest) as the late payments are received. The PJM OI has the right to discontinue service to the PJM Members or Transmission Customers that default.

Section 2: Monthly Billing Statement

Welcome to the *Monthly Billing Statement* section of the PJM Manual for ***Billing***. In this section, you will find the following information:

- A description of the summary page of the monthly billing statement (see *"Summary Page"*).
- A description of the Operating Agreement section of the monthly billing statement (see *"Operating Agreement Section"*).
- A description of the PJM Open Access Transmission Tariff section of the monthly billing statement (see *"Transmission Tariff Section"*).
- A description of the Reliability Assurance Agreements section of the monthly billing statement (see *"Reliability Assurance Agreements Section"*).

Summary Page

The summary page contains the following information:

- name and address of the PJM OI
- name of the PJM Customer being invoiced
- invoice status (e.g., final), invoice date and time, and period covered by the invoice
- net amount due to the PJM OI or to the customer under the Operating Agreement (if applicable)
- net amount due to the PJM OI or to the customer under the Open Access Transmission Tariff (if applicable)
- net amount due to PJM OI or to the customer under the Reliability Assurance Agreements (if applicable)
- amount due to the PJM OI for interest on past due charges
- total net amount due to the PJM OI or to the PJM Customer
- payment terms and instructions for wire transfer

Operating Agreement Section

The Operating Agreement section of the monthly billing statement consists of the following three parts:

- Operating Agreement charges
- Operating Agreement credits

Operating Agreement Charges

This section of the monthly billing statement lists the amount in dollars due from the Member for each of the services billed under the PJM Operating Agreement. For more detail about how these charges are calculated, see the PJM Manual for ***Operating Agreement Accounting (M-28)***. Although charges nearly always represent amounts owed by the PJM Member for services provided to the PJM Member, occasionally the calculations result in negative charges, representing an amount due to the PJM Member for the particular service. When this happens, the letters "CR" will appear to the right of the amount shown.

In addition to the identified services, miscellaneous items or special adjustments may appear from time to time. When such items appear on a monthly billing statement, they are accompanied by an explanatory comment.

The following line items may appear on each month's billing statement.

- *Spot Market Energy charges* — The sum of the PJM Member's hourly day-ahead and balancing spot market energy charges for all hours in which the PJM Member was a net buyer of energy on the basis of its net hourly day-ahead spot market interchange.
- *Regulation charges* — The sum of the PJM Member's hourly regulation charges for all hours in which the PJM Member purchased regulation.
- *Operating Reserves charges* — The sum of the PJM Member's daily day-ahead and balancing Operating Reserves charges for all Operating Days.
- *Synchronous Condensing charges* — The sum of the PJM Member's daily Synchronous Condensing charges for all Operating Days.
- *Spinning Reserve Charges* — The sum of the PJM Member's hourly Spinning Reserve charges for all hours in which the PJM Member purchased spinning reserve.
- *Transmission Congestion charges* — The sum of the PJM Member's or Transmission Customer's hourly day-ahead and balancing transmission congestion charges for all hours in which the transmission system was congested (explicit and implicit).
- *Transmission Losses charges* — The sum of the Transmission Customer's hourly day-ahead and balancing point-to-point transmission losses charges for all hours.

- *Emergency Energy charges* — The sum of the PJM member's or external pool's hourly emergency energy purchase charges for all hours in which the PJM OI purchased or sold emergency energy.

- *PJM Load Response Programs charges* — The sum of the PJM Member's charges for the PJM Economic Load Response Program and PJM Emergency Load Response Program for all Operating Days.

- *Capacity Credit Market charges* — The sum of the PJM member's charges for capacity bought through the PJM Capacity Credit Market.

- *FTR Auction charges* — The sum of the FTR buyer's charges for the purchase of on-peak and off-peak FTRs through the PJM FTR Auction.

- *Meter Error Correction charges* — The sum of the PJM Member's charge adjustments resulting from correction of meter errors.

- *Unscheduled Transmission Service charges* — The charges associated with unscheduled transmission service according to the PJM agreement with NYPP.

- *Ramapo PAR Facilities charges* — The charges due from the PJM Control Area transmission owners to pay for their shares of the carrying charges associated with the phase angle regulating (PAR) facilities at Ramapo.

- *Reconciliation for Spot Market Energy charges* — The sum of the PJM member's Spot Market energy charge adjustments for a specified month due to an after-the-fact reconciliation of kWh load responsibility for that member in that month.

- *Reconciliation for Regulation charges* — The sum of the PJM member's Regulation charge adjustments for a specified month due to an after-the-fact reconciliation of kWh load responsibility for that member in that month.

- *Reconciliation for Operating Reserves charges* — The sum of the PJM member's Operating Reserves charge adjustments for a specified month due to an after-the-fact reconciliation of kWh load responsibility for that member in that month.

Operating Agreement Credits

This section of the monthly billing statement lists the amount in dollars due to the Member for each of the services billed under the PJM Operating Agreement. For more detail about how these credits are calculated, see the PJM Manual for ***Operating Agreement Accounting***. Although credits nearly always represent amounts owed to the PJM Member for services provided by the Member, occasionally the calculations result in negative credits, representing an amount due from the PJM Member for the particular service. When this happens, the letters "CH" will appear to the right of the amount shown.

In addition to the identified services, miscellaneous items or special adjustments may appear from time to time. When such items appear on a monthly billing statement, they are accompanied by an explanatory comment.

The following line items may appear on each month's billing statement.

- *Spot Market Energy credits* — The sum of the hourly day-ahead and balancing spot market energy credits for all hours in which the PJM Member was a net seller of energy on the basis of its net hourly day-ahead spot market interchange.
- *Regulation credits* — The sum of the PJM Member's hourly regulation credits for all hours in which the PJM Member provided regulation.
- *Operating Reserves credits* — The sum of the PJM Member's daily day-ahead and balancing Operating Reserves credits for all Operating Days for eligible pool-scheduled generation resources.
- *Synchronous Condensing credits* — The sum of the PJM Member's daily Synchronous Condensing credits for all Operating Days.
- *Spinning Reserve credits* — The sum of the PJM member's hourly Spinning Reserve credits for all hours in which the PJM Member provided spinning reserve in response to a spinning event.
- *Transmission Congestion credits* — The sum of the PJM Member's, FTR Customer's or Transmission Customer's transmission congestion credits for all hours in which the transmission system was congested.
- *Transmission Losses credits* — The sum of the PJM Member's hourly transmission losses credits for all hours.
- *Emergency Energy credits* — The sum of the PJM Member's or external pool's hourly emergency energy sale credits for all hours in which the PJM OI purchased or sold emergency energy.
- *PJM Load Response Programs credits* — The sum of the PJM member's credits for the PJM Economic Load Response Program and PJM Emergency Load Response Program for all Operating Days.
- *Capacity Credit Market credits* — The sum of the PJM Member's credits for capacity sold through the PJM Capacity Credit Market.
- *FTR Auction credits* — The sum of the FTR seller's credits for the sale of on-peak and off-peak FTRs through the PJM FTR Auction.

- *FTR Auction Revenue Allocations* — The allocation to the RTO of net revenues resulting from the sale of on-peak and off-peak FTRs for that month through the PJM FTR Auction.

- *Ramapo PAR credits* — The credits due to the NYPP for the carrying charges for phase angle regulating (PAR) facilities at Ramapo.

- *Reconciliation for Transmission Losses credits* — The sum of the PJM member's Transmission Losses credit adjustments for a specified month due to an after-the-fact reconciliation of kWh load responsibility for that member in that month.

Transmission Tariff Section

The PJM Open Access Transmission Tariff section of the monthly billing statement consists of the following three parts:

- transmission tariff charges
- transmission tariff credits

Transmission Tariff Charges

This section of the monthly billing statement lists the amount in dollars due from the Transmission Customer for each of the services in the PJM Open Access Transmission Tariff. For more detail about how these charges are calculated, see the PJM Manual for ***Open Access Transmission Tariff Accounting***. Although charges nearly always represent amounts owed by the Transmission Customer for services provided to the Transmission Customer, occasionally the calculations will result in negative charges, representing an amount due to the Transmission Customer for the particular service. When this happens, the letters "CR" will appear to the right of the amount shown.

In addition to the identified services, miscellaneous items or special adjustments may appear from time to time. When such items appear on a monthly billing statement, they are accompanied by an explanatory comment.

The following line items may appear on each month's billing statement:

- *PJM Scheduling, System Control and Dispatch Service charges* — The PJM Member's monthly share of the PJM OI's monthly operating expenses, allocated on an unbundled basis in accordance with Schedule 9: "PJM Interconnection, L.L.C. Administrative Services" of the PJM Open Access Transmission Tariff.

- *Transmission Owner Scheduling, System Control and Dispatch Service charges* — The Transmission Customer's monthly share of the charges for operation of the RTO's control centers, allocated in proportion to the Transmission Customer's use of the transmission system in each zone.

- *Reactive Supply and Voltage Control from Generation Source Service charges* — The Transmission Customer's monthly charges for reactive power support for transactions on the PJM Control Area Transmission System.

- *Network Integration Transmission Service charges* — The Transmission Customer's monthly transmission demand charge, based on applicable Zone rates.

- *Network Transmission Service Offset charges* — All Network Integration Transmission Service Customer's in the Allegheny Power zone are provided with rebates applied as a negative charge based on their applicable wholesale or retail rate to hold them harmless from the network rate conversion.

- *Other Supporting Facilities charges* — The monthly charge to a Network Customer for low voltage facilities as specified in their service agreement.
- *Special Studies charges* — The charge for performing a system impact or facilities studies which identifies any system constraints and redispatch options required to support additional responsibilities or network upgrades.
- *Firm Point-to-Point Transmission Service charges* — The Transmission Customer's monthly transmission demand charge, based on applicable Zone rates.
- *Non-Firm Point-to-Point Transmission Service charges* — The Transmission Customer's monthly transmission demand charge, based on applicable Zone rates.
- *Transitional Revenue Neutrality charges* — The Point-to-Point Transmission Customer's charge for Allegheny Power's revenue neutrality.
- *Mid-Atlantic Area Council charges* — The Transmission Customer's monthly share of the Mid-Atlantic Area Council's actual monthly expenses, allocated in proportion to the PJM Control Area LSEs' load, on a megawatt-hour basis.
- *Transitional Market Expansion charges* — The charge to Generation providers and Transmission Customer's using Point-to-Point and Network Integration Transmission Service in recognition of the benefits to competition and system reliability from the expansion of the PJM markets and system operations to include the PJM West Control Area.
- *Black Start Service charges* — The Transmission Customer's monthly charges for black start service on the PJM Transmission System.
- *Reconciliation for PJM Scheduling, System Control and Dispatch Service charges* — The PJM member's Scheduling, System Control and Dispatch Service charge adjustment for a specified month due to an after-the-fact reconciliation of kWh load responsibility for that member in that month.
- *Reconciliation for TO Scheduling, System Control and Dispatch Service charges* — The PJM member's TO Scheduling, System Control and Dispatch Service charge adjustment for a specified month due to an after-the-fact reconciliation of kWh load responsibility for that member in that month.

Transmission Tariff Credits

This section of the monthly billing statement lists the amount in dollars due to the Transmission Owner for the services provided under the PJM Open Access Transmission Tariff. For more detail about how these credits are calculated, see the PJM Manual for ***Open Access Transmission Tariff Accounting***.

In addition to the identified services, miscellaneous items or special adjustments may appear from time to time. When such items appear on a monthly billing statement, they are accompanied by an explanatory comment.

The following line items may appear on each month's billing statement:

- *Transmission Owner Scheduling, System Control, and Dispatch Service credits* — The Transmission Owner's monthly credit for the expense of providing scheduling, system control, and dispatch service through its control center.

- *Reactive Supply and Voltage Control Generation Service credits* — The Transmission Owners' share of all service charges collected for reactive supply and voltage control from generation sources service collected for the month.

- *Network Integration Transmission Service credits* — The Transmission Owners' share of all demand charges for network integration transmission service collected for the month.

- *Network Transmission Service Offset credits* — The negative credit applied to Allegheny Power to hold Network Integration Transmission Service Customer's in the Allegheny Power zone harmless from the network rate conversion.

- *Other Supporting Facilities credits* — The monthly credit to a Transmission Owner for low voltage facilities as specified in their service agreement.

- *Firm Point-to-Point Transmission Service credits* — The Transmission Owners' share of demand charges collected for firm point-to-point service collected for the month.

- *Non-Firm Point-to-Point Transmission Service credits* — The Network and Firm Point-to-Point Transmission Customers' share of demand charges for non-firm point-to-point service collected for the month.

- *Transitional Revenue Neutrality credits* — The credit to Allegheny Power as compensation to recover costs associated with joining PJM.

- *Transitional Market Expansion credits* — The credit to Allegheny Power as compensation to recover costs associated with joining PJM.

- *Black Start Service credits* — The Generation Owners' share of all service charges collected for black start service for the month.

Reliability Assurance Agreements Section

The Reliability Assurance Agreements of the monthly billing statement consists of the following three parts:

- Reliability Assurance Agreements charges
- Reliability Assurance Agreements credits

Reliability Assurance Agreements Charges

This section of the monthly billing statement lists the amount in dollars due from the LSEs for each of the services in the Reliability Assurance Agreements.

In addition to the identified services, miscellaneous items or special adjustments may appear from time to time. When such items appear on a monthly billing statement, they are accompanied by an explanatory comment.

The following line item appears on each month's billing statement only if a charge is incurred.

- *Capacity Deficiency charges* — Deficiency charges due to an LSE not having sufficient unforced or available capacity to fulfill their capacity obligation.

Reliability Assurance Agreements Credits

This section of the monthly billing statement lists the amount in dollars due to the LSE for each of the services in the Reliability Assurance Agreements.

In addition to the identified services, miscellaneous items or special adjustments may appear from time to time. When such items appear on a monthly billing statement, they are accompanied by an explanatory comment.

The following line item appears on each month's billing statement only if a credit is incurred.

- *Capacity Deficiency credits* — The PJM Member's share of daily capacity deficiency charges.

Section 3: Accounting Reports

Welcome to the *Accounting Reports* section of the PJM Manual for ***Billing***. In this section, you will find the following information:

- A description of the monthly billing reports that are made available to PJM members and Transmission Customers (see *"Accounting Reports"*).

Accounting Reports

The PJM OI issues numerous accounting reports electronically and/or accompanying the monthly billing statements. The purpose of providing the reports is to enable the PJM Members and Transmission Customers to verify the charges and credits that appear on their bill.

Customer Guide

The PJM OI Market Settlements Department has prepared a customer guide that describes each of the services that appear on the bill and the calculation that is used to determine the charges or credits. The customer guide is electronically available at www.pjm.com. The general format of the customer guide is presented in Exhibit 3.1.

PJM Open Access Transmission Tariff Billing		
Billing Service	**Description**	**Reports**
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.	.	.
.	.	.
.	.	.
.	.	.
.	.	.

Exhibit 3.1: Customer Guide Format

The Customer Guide to PJM Billing Reports presents the following information for each billing service:

- *Billing Service* - service for which the credit or charge is calculated.
- *Description* - description of the service, including charge/credit calculations.
- *Reports* - list of billing reports that contain the data used to calculate the service charge or credit.

Kentucky Power
d/b/a
American Electric Power

REQUEST

Assuming that the Commission approves KPCO's request to transfer control of its transmission assets to PJM, will those assets remain in KPCO's retail rate base for retail rate-making purposes? If no, explain in detail why the assets will be removed from KPCO's retail rate base.

RESPONSE

Yes.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

At the February 25, 2003 informal conference, AEP stated that joining PJM would open up the eastern market for AEP's off-system sales. Describe the impact that factors such s transmission congestion, Congestion Revenue Rights, and NOx allowance limits will have on AEP's strategy to make off-system sales to the east.

RESPONSE

Factors such as transmission congestion, congestion revenue rights, and NOx allowance limits exist in the markets within which AEP participates today. AEP's strategy with regard to off-system sales will remain unchanged. AEP will continue to maximize the value of its assets by selling its generation when it is economical to do so.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

If PJM required the Big Sandy generating units to be ramped up or down, describe the impact on KPCO's NOx emissions and its use of NOx allowances.

RESPONSE

If the Big Sandy Units were to be ramped up or down, the effect would be to increase or decrease, respectively, KPCO's NOx emissions and use of NOx allowances. However, it is unlikely that PJM would require the Big Sandy units to be ramped up or down, because they are low cost units that would likely be self-scheduled to serve load, and to be base-loaded.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the response to Staff's initial request, Item 9(a), which indicates that KPCO's customers will benefit due to AEP having access to 153,000 MW of generation in the PJM region.

a. Provide a comparison of KPCO's and AEP's generation costs with those of utilities in the PJM region.

b. Is it AEP's position that benefits will accrue to KPCO customers because they will have access to less expensive power in the PJM region? Explain the response in detail.

RESPONSE

a) A comparison of generation costs from published sources is being compiled and will be provided when completed.

b) AEP believes that benefits should accrue to KPCo customers because AEP/KPCo will have the access to about 153,000 MW of generation in the PJM expanded region while not paying out and through transmission charges linking such a vast generation pool. Further, PJM will optimize the least cost generation dispatch on a regional basis in the day-ahead and real-time markets based on the voluntary bids submitted by market participants while maintaining security of the transmission system. The least cost optimization on a regional basis offers more benefits than what can be derived from the least cost dispatch of just one utility.

Historically, AEP has not been a major buyer of energy from outside. However, under the PJM energy market scenario, AEP will have a vast array of choices and flexibility in choosing between bilateral contracting in forward time periods or participating in the real-time energy market.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

The response to Staff's initial request, Item 12, refers to the potential for certain extreme conditions occurring on the AEP system in West Virginia and Virginia that could impact voltage on KPCO's system.

a. Describe the cost impacts to KPCO due to the potential for decreased service reliability as referred to in the response to Item 12.

b. Explain whether there will be increased costs to KPCO due to congestion/Locational Marginal Pricing across the AEP system. If yes, quantify the increased costs to KPCO.

c. If increased costs occur across AEP's system, will they be allocated to KPCO based on its member load ratio? If no, describe the proposed allocation methodology.

RESPONSE

a. Estimating the costs of certain extreme conditions such as a hypothetical transmission failure is difficult because the extent of the resultant outage is largely dependant upon the prevailing electrical conditions at the time of the unanticipated transmission failure. As stated in the company's response to Staff's initial request, Item 12, certain outages coupled with extreme weather conditions and/or power-transfer conditions can potentially stress the AEP System beyond acceptable limits that could have an impact upon the reliability to Kentucky native load customers. These outages involve the potential overload of the 345 kV circuit between the Kanawha River Station in West Virginia and the Matt Funk Station in Virginia. However, the confluence of conditions has not occured in the AEP Transmission System that could result in such wide spread outages.

Furthermore, with Allegheny Power already part of PJM, and AEP and Dominion Virginia Power actively pursuing PJM membership, the potential overloads on the Kanawha - Matt Funk 345 kV circuit can be more effectively managed through PJM market operations, Security Coordination, and NERC Transmission Loading Relief procedures. Therefore, AEP membership in PJM would enhance service reliability to Kentucky Power's native load customers.

b. AEP expects to use financial transmission rights (FTRs) to offset Locational Marginal Pricing (LMP) congestion costs. AEP is evaluating its plans to manage congestion costs. AEP believes that it can mitigate congestion costs and in association with its generation fleet scheduling and dispatch expects to minimize any potential congestion risks under LMP. The Company has made no decision at this time as to the appropriate cost allocation methodology for the recovery of LMP costs.

c. See response to part b. above.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

The response to Staff's initial request, Item 14, refers to AEP having installed generation capacity of 29,000 MW. In February 2000, AEP filed a schedule with the Commission, which showed AEP generating resources, including Buckeye Power, of 24,668 MW. Provide a description of the approximately 4,332 MW of generating capacity added to the AEP system since February 2000 (or not reflected on that schedule) and include the name and location of each generating unit, the name of the corporate owner, the net output of each generating unit, the type of fuel burned, and whether the unit is operated as a base, intermediate, or peaking unit.

RESPONSE

IPP Generation Addition to the AEP System Since 2000

Company/Owner	Project Name	Site/Location County/State	Max. Gen Level (MW	Voltage (kV)	Type of Generation	Type of Unit
Constellation	Wolf Hills	Bristol/VA	273	138	CT	Peaking
Dynegy	Riverside	Lawrence/KY	500	345	CT	Peaking
Orion	Twelve Pole Creek	Credo/WV	500	138	CT	Peaking
DPLE	Montpelier (1)	Wells/IN	400	345	CT	Peaking
Constellation	Big Sandy Peaker	Wayne/WV	300	138	CT	Peaking
	Total MW In Service in 2001		**1973**			
NPC (Buckeye)	Robert P. Mone	Van Wert/OH	510	345	CT	Peaking
DENA	Washington	Washington/Ol	650	345	CC	Peaking
Mirant	Sugar Creek	Sugar Creek/IN	570	345	CC	Peaking
Dynegy	Foot Hills	Lawrence/KY	335	345	CT	Peaking
AlleghenyES	Garden Creek	Buchanan/VA	94	138	CT	Peaking
NW Fuel	Rose Valley	Hopedale/OH	0.6	69	Fuel Cell	
	Total MW in Service in 2002		**2160**			
	Approximate Total Addition		**4133**			

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Identify all current transmission-owning members of PJM and all utilities that have announced an intent to join PJM. For each entity so identified, list the state jurisdictions in which it operates and indicate whether the retail customers in those jurisdictions either now have, or will by a date certain, have the right to choose their generation supplier.

RESPONSE

PJM Members	State	Retail Choice
Atalntic City Electric Co. (Conectiv)	DE, NJ	yes
Baltimore Gas and Electric Co.	MD	yes
Delmarva Power and Light Co. (Conectiv)	DE, MD, VA	yes
Jersy Central Power and Light Co.	NJ	yes
Metropolitan Edison Co. (FE)	PA	yes
Monongahela Power Co. (APS)	MD, PA, OH VA, WV	MD - yes, PA - yes , OH-yes, VA-yes, WV - no
Pennsyvalnia Electric Co. (FE)	PA, OH	yes
Potomac Electric Power Co. (APS)	MD	yes
Public Service Electric and Gas Co.	NJ	yes
Rockland Electric Co.	NJ	yes
UGI Utilities, Inc.	PA	yes
West Penn (APS)	PA	yes
AEP	IN, KY, MI, OH, TN, VA, WV	IN-no, KY-no, MI-yes, OH-yes, TN-no, WV-no,VA-yes
Commonwealth Edison	IL, IN	IL-yes, IN-no
Dayton Power & Light	OH	yes
Dominion Virginia Power	VA, NC	VA-yes, NC-no

WITNESS J Craig Baker